

Message Text

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TO USINT ALGIERS IMMEDIATE

C O N F I D E N T I A L STATE 087522

TOSEC 30 ,LIMDIS

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: MIDDLE EASTERN OIL PRODUCERS' WILLINGNESS TO
CONTRIBUTE \$2.7 BILLION TO THE IMF'S OIL FACILITY

1. ACCORDING TO IMF MANAGING DIRECTOR WITTEVEEN, OIL-
PRODUCING COUNTRIES ARE WILLING TO LOAN THE IMF THE
EQUIVALENT OF \$2.7 BILLION THIS YEAR FOR THE IMF'S SPECIAL
OIL FACILITY TO RELIEVE CONSUMING COUNTRIES IN BALANCE OF
PAYMENTS DIFFICULTIES BECAUSE OF INCREASED EXPENDITURES FOR
OIL IMPORTS.

2. WITTEVEEN HAS RETURNED FROM A VISIT TO SIX COUNTRIES
IN NORTH AFRICA AND THE MIDDLE EAST WITH ASSURANCES THAT
FUNDS APPROXIMATELY EQUIVALENT TO THE FOLLOWING DOLLAR
FIGURES WOULD BE AVAILABLE AT 7 PER CENT ANNUAL INTEREST:

A.SAUDI -ARABIA: \$1.2 BILLION THROUGH THE SAUDI
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A. SAUDI ARABIA: \$1.2 BILLION THROUGH THE SAUDI

ARABIAN MONETARY AGENCY DURING 1974 AND POSSIBLY MORE IF THE FUND NEEDS IT.

B. KUWAIT: \$480 MILLION FROM THE CENTRAL BANK OF KUWAIT IF THE COUNCIL OF MINISTERS ACCEPTS THE RECOMMENDATION TO BE MADE BY THE MINISTER OF FINANCE.

C. UNITED ARAB EMIRATES: \$120 MILLION DURING THE FIRST HALF YEAR OF THE FACILITY IF THE GOVERNMENT ACCEPTS

OF FINANCE AND THE DEPARTMENT OF FOREIGN AFFAIRS. MORE MONEY MIGHT BE AVAILABLE LATER.

D. LIBYA: \$240 MILLION, OR MORE, IF THE RECOMMENDATION OF THE MINISTRY OF THE TREASURY IS ACCEPTED.

E. IRAN: \$700 MILLION, WHICH HAD BEEN OFFERED BY THE SHAH PREVIOUSLY.

G. TOTAL: \$2.7 BILLION OR MORE.

3. IN ADDITION, THE ALGERIAN GOVERNMENT HAS EXPRESSED A WILLINGNESS TO CONSIDER A LOAN TO THE OIL FACILITY, WHICH IT SUPPORTS IN PRINCIPLE, WHEN ITS BALANCE OF PAYMENTS SITUATION IMPROVES.

4. THE IMF HAS NOW MADE HIGH LEVEL APPROACHES TO SEVEN OF THE TEN MOST IMPORTANT OIL EXPORTING COUNTRIES. WILLIAM DALE, DEPUTY MANAGING DIRECTOR OF THE IMF, IS NOW CONSULTING WITH THE GOVERNMENT IN NIGERIA, WITTEVEEN PLANS TO VISIT VENEZUELA IN EARLY MAY AND AN IMF MISSION IS CURRENTLY IN QATAR TO DISCUSS THE FACILITY AND POSSIBLE BORROWING BY THE FUND. DISCUSSIONS ARE ALSO UNDERWAY BETWEEN THE IMF AND THE GOVERNMENT OF IRAQ.

5. COMMENT: AS A RESULT OF HIS MISSION, THE IMF MANAGING DIRECTOR REPORTEDLY BELIEVES THAT THE OIL FACILITY HAS BECOME VIABLE, AND IT COULD BE ESTABLISHED IN TIME TO RECYCLE FUNDS TO PROVIDE SOME RELIEF TO IMPORTING COUNTRIES THIS YEAR. WITTEVEEN SEEMS TO HAVE AVAILABLE NEARLY HALF
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OF THE FUNDING FOR A \$15 BILLION FACILITY AS ORIGINALLY ENVISIONED BY THE IMF STAFF FOR FINANCING OVER THE NEXT TWO YEARS. THIS FIGURE WOULD DEPEND ON FINANCING THE OIL FACILITY FOR ITS FIRST SIX MONTHS OUT OF FUNDS ALREADY ON HAND, AS ENVISAGED BY THE STAFF OF THE IMF. THIS ARRANGEMENT HAS NOT BEEN APPROVED BY THE IMF'S EXECUTIVE BOARD, HOWEVER, AND THE US POSITION HAS OPPOSED MIXING GENERAL IMF FUNDS WITH THOSE BORROWED SPECIALLY FOR

THE OIL FACILITY.

6. WITTEVEEN'S SUCCESS IN WINNING A LARGE FINANCIAL COMMITMENT FROM OIL PRODUCERS IN THE MIDDLE EAST HAS IN ANY CASE GIVEN NEW MOMENTUM TO THE PROPOSAL FOR AN OIL FACILITY AND INCREASES THE LIKELIHOOD THAT AN AGREEMENT CAN BE STRUCK ON THE EXACT NATURE OF THE FACILITY.

7. THE \$2.7 BILLION THESE FIVE COUNTRIES ARE WILLING TO CONTRIBUTE TO THE OIL FACILITY IS MORE THAN FIVE TIMES THEIR COMBINED QUOTAS WITH THE IMF AND REPRESENTS A MAJOR INCREASE IN THEIR INVOLVEMENT IN OFFICIAL INTERNATIONAL COOPERATIVE ARRANGEMENTS.

8. AMONG THE FACTORS MOTIVATING THESE COUNTRIES, THE OIL FACILITY PERMITS THEM CONVENIENTLY TO TRANSFER SOME OF THEIR RAPIDLY-ACCUMULATING FOREIGN EXCHANGE TO CONSUMING COUNTRIES UNDER THE POLITICAL AND FINANCIAL PROTECTION OF A MAJOR INTERNATIONAL INSTITUTION. AN ADDITIONAL ATTRACTION IS THAT THIS VEHICLE OFFERS THE OIL PRODUCERS A REASONABLE INTEREST RATE, AND BECAUSE IT WOULD BE EXPRESSED IN SDRS REFLECTING A MARKET BASKET OF MAJOR CURRENCIES, WOULD REPRESENT A PARTIAL EXCHANGE RATE GUARANTEE. IT IS ALSO FREE OF BOTH THE HEADACHES OF MANAGEMENT AND THE RISK OF EXPROPRIATION. MOREOVER, PARTICIPATION IN THE OIL FACILITY COULD PROVIDE THE OIL PRODUCERS WITH IMAGE-ENHANCING PROOF THAT THEY ARE WILLING TO LIGHTEN THE BURDEN THEIR HIGHER OIL PRICES HAVE PLACED ON CONSUMING COUNTRIES. RUSH

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